

Message Text

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ACTION ARA-06

INFO OCT-01 SS-14 ISO-00 L-01 EB-03 TRSE-00 COME-00 CIEP-01

NSC-05 NSCE-00 SSO-00 INRE-00 SP-02 /033 W

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC IMMEDIATE 7365

C O N F I D E N T I A L LIMA 8872

LIMDIS

FOR ARA - WILLIAM ROGERS; L - MONROE LEIGH; EB - THOMAS ENDERS;
TREASURY - JOHN BUSHNELL; COMMERCE - DON ARRILL;
CIEP - WAYNE SHARPE

E.O. 11652: GDS

TAGS: EINV, EIND, PFOR, PE

SUBJECT: MARCONA - FRIDAY MORNING MEETING WITH COMPANY
OFFICIALS

1. AMBASSADOR AND US TEAM MET MORNING OF OCTOBER 24
WITH FURTH AND BRADFIELD OF MARCONA TO GO OVER KEY
ELEMENTS OF POSITION TO BE TAKEN BY US SIDE IN AFTERNOON
DISCUSSION WITH COMMISSION AND PRIME MINISTER.

2. FSHLOW BEGAN BY POINTING OUT THAT WE WILL AGAIN
STATE THAT WE DO NOT ACCEPT BOOK VALUE AND THAT
(A) GOP'S BOOK VALUE DECREE DOES NOT APPEAR
TO BE APPLICABLE TO THE MINING SECTOR, AND (B) PROCESS
APPARENTLY EXCLUDES SOME \$25 MILLION IN MARCONA ASSETS
REPORTED IN THE PRICE, WATERHOUSE AUDIT OF DECEMBER 1974.

3. US TEAM BRIEFLY OUTLINED APPROACH WE INTEND TO TAKE
TO DEMONSTRATE EXAMPLES OF OTHER METHODS OF EVALUATION
(APPRAISAL AND GOING CONCERN) WHICH RESULT IN MUCH HIGHER
FIGURES (IN THE \$120-MILLION RANGE). FURTH SAID THAT HE
THOUGHT THIS WAS A GOOD APPROACH AND THAT IT SHOULD BE
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PERSUASIVE TO THE COMMISSION. HE WENT ON TO RE-EMPHASIZE

THAT MARCONA PERU WAS A VERY VALUABLE ASSET THAT A WILLING BUYER MIGHT PAY \$350 MILLION FOR IN A PLACE RELATIVELY FREE OF RISK. HE NOTED, HOWEVER, THAT HE THOUGHT THE \$120-MILLION FIGURE WAS A REASONABLE ONE UNDER THE CIRCUMSTANCES.

4. FISHLOW THEN ASKED MARCONA REPRESENTATIVES TO EXPLAIN SOME SPECIFIC POINTS WHICH WERE NOT CLEAR TO US TEAM AND WHICH MIGHT BE RAISED BY COMMISSION. IT WAS POINTED OUT THAT SUBSTANTIAL DIFFERENCES, WHICH WOULD BE DIFFICULT TO JUSTIFY, EXISTED BETWEEN BALANCE SHEET PRESENTED TO US TEAM AS OF JUNE 30, 1975 AND DATA CONTAINED IN PRICE, WATERHOUSE AUDIT OF DECEMBER 31, 1974. FURTH EXPLAINED THAT THE PRIMARY DIFFERENCE IS CAUSED BY DIFFERENT ACCOUNTING TECHNIQUES IN PERU AND ' THE US. THE MARCONA BALANCE SHEET OF JULY CAME FROM PRELIMINARY DATA AVAILABLE IN US WHILE PRICE, WATERHOUSE REPORT WAS PREPARED IN ACCORDANCE WITH PERUVIAN LAW. IN EFFECT PERUVIAN LAW ALLOWS A FASTER RATE OF DEPRECIATION (A DIFFERENCE AFFECTING PERUVIAN EARNINGS AS WELL AS ULTIMATE BOOK VALUE) THAN IS PERMITTED UNDER US LAW. IN ADDITION THERE REMAINS AN EXCHANGE RATE ADJUSTMENT PROBLEM WHICH, ACCORDING TO FURTH, WOULD MEAN THAT DOLLAR VALUE OF PERUVIAN ASSETS UNDER THE PERUVIAN CALCULATION WILL TEND TO BE LESS THAN UNDER US CALCULATION. FISHLOW REQUESTED MARCONA TO PROVIDE US WITH AUDITED ACCOUNTS IN BOTH SOLES AND DOLLARS. FURTH WENT ON TO EXPLAIN THAT, IN ADDITION, THE DISCREPANCY ON ORE VALUES COULD WELL BE RELATED TO DIFFERENCES IN INVENTORY QUANTITIES.

5. US TEAM ASKED MARCONA WHAT IT WOULD CONSIDER GOOD FAITH NEGOTIATIONS ON THE PART OF THE GOP. BRADFIELD STATED THAT IT DEPENDED ON WHAT WE GET FROM THE COMMISSION AND THE PRIME MINISTER TODAY (OCTOBER 24) BUT HE HOPED US TEAM WOULD CLEARLY PLACE THE BURDEN ON THE GOP TO COME UP WITH SOMETHING MORE REASONABLE. FISHLOW STATED HIS INTENTION TO ASK THE GOP TO COME UP WITH SOMETHING WITH- IN 7 - 10 DAYS FOR A RETURN VISIT WITHIN THAT TIME FRAME. IN THE MEANTIME BRADFIELD SUGGESTED THAT USG SHOULD KEEP THE IFI LOANS OFF THE

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BOARD SCHEDULES TO KEEP THE PRESSURE ON THE GOP. FINALLY, FURTH POINTED OUT THAT ONE CAN GO ONLY SO FAR WITH THE COMMISSION TO NARROW DIFFERENCES. AT SOME POINT THE ISSUE MUST BE PRESENTED AT A MUCH HIGHER POLITICAL LEVEL FOR A DECISION BY BOTH SIDES.

6. FINALLY US TEAM SAID THAT IT WOULD BE HELPFUL TO HAVE A MORE DETAILED ANALYSIS OF THE PROCESS BY WHICH

MARCONA HAS ARRIVED AT THE FIGURES IT BELIEVES WOULD
CONSTITUTE A REASONABLE SETTLEMENT.
DEAN

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COMPENSATION, NATIONALIZATION, NEGOTIATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 25 OCT 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975LIMA08872
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750371-0493
From: LIMA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751018/aaaaapso.tel
Line Count: 118
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 12 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12 SEP 2003 by CunninFX>; APPROVED <20 OCT 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: MARCONA - FRIDAY MORNING MEETING WITH COMPANY OFFICIALS
TAGS: EINV, EIND, PFOR, PE, US, MARCONA
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006